

AssetMark, Genworth Tie the Knot

Can a turnkey asset management firm find true happiness with an insurance company?

By Marshall Eckblad

August 1, 2006- In late June, AssetMark Investment Services, based in Pleasant Hill, Calif., went acourting for a mate with deep pockets that could help propel the provider of turnkey asset-management services to the next level. It found a willing and suitable partner in Richmond, Va.-based insurance giant Genworth Financial.

The nuptials are set for the fourth quarter, when Genworth will pay \$230 million for AssetMark and up to \$110 million in additional "performance-based payments" over the next five years, conditional on AssetMark's future performance.

Genworth will subsume its own provider of managed account services, Genworth Financial Asset Management, under AssetMark's name. AssetMark will bring \$8 billion in assets under management (AUM) to the new unit, tripling Genworth's fee-based assets, which currently stand at \$4 billion. Genworth's broker-dealer unit currently has 2,300 reps and \$75.8 million in 2005 total revenues. Together, the firms will have a relationship with just over 4,000 independent advisers, 10% of whom currently have separate relationships with both firms.



Assetmark Chairman Ron Cordes: "There's an opportunity in our space for a leader to emerge."

For AssetMark, the Genworth deal marks another chapter in the firm's meteoric rise. In 2000, after four years of growth that netted \$1 billion in AUM, the firm launched a line of no-load AssetMark Funds, enabling it to offer lower-cost options for advisers. That was the catalyst to a growth spurt. "Back in 2000, we were building our business organically," says CEO Brian O'Toole. "We asked, 'What is it going to take for us to be a \$10 billion firm?' and we decided

that we needed to have a financial partner." The firm sold a \$12 million private equity stake to investment banker Putnam Lovell. Since then, AUM has grown exponentially--rising 60% over the past two years alone, to \$8 billion. To maintain that growth, the AssetMark team again decided to raise capital--this time through an outright sale. "For us to grow again by five times," says O'Toole, "we needed to have a significant global financial partner."

But AssetMark wanted a partner, not a parent, and the Genworth deal allows the firm's top executives to remain in their current positions: Ron Cordes will be chairman of the combined organization while O'Toole and Richard Steiny will be CEO and president, respectively. The companies announced that all three have signed "long-term contracts"--durations undisclosed--to keep them at the helm well after the sale. Gurinder Ahluwalia, president of Genworth Financial's broker-dealer and head of annuity sales, will serve as AssetMark's vice chairman, and the board will report to Pam Schutz, the president and CEO of Genworth's Retirement Income and Investment business.

"We weren't looking to exit or leave the firm," says Cordes. "There's an opportunity in our space for a leader to emerge. But to really attack, we need a partnership with an organization that has larger resources and brands."

The move makes sense in an increasingly competitive environment. According to a November 2005 report by Tiburon Strategic Advisors, a consulting firm in Tiburon, Calif., the turnkey asset management program (TAMP) industry has boomed in the past decade, growing from a handful of providers to nearly 60. Although total TAMP assets now hover around \$200 billion, Tiburon expects that to triple to over \$600 billion by 2010 "as insurance companies push their salespeople to sell more investments."

That increased competition should lead to accelerated consolidation as firms seek better economies of scale. According to Tiburon, AssetMark ranks eighth out of 57 TAMPs. It is less than half the size of five of its rivals and is dwarfed by its largest direct competitor, SEI Investments in Oaks, Pa., which has \$28 billion in TAMP assets and access to roughly 9,000 advisers, compared with AssetMark's 2,000. Genworth should help AssetMark compete.

FORAY INTO FEES

As for Genworth, the AssetMark purchase strengthens the insurer's foray into the fee-based independent adviser market. The AssetMark buy gives Genworth both an immediate and long-term profit opportunity in the fee-based industry, especially in the TAMP space.

Once the insurance arm of General Electric, Genworth went public about two years ago, but GE sold off its final share of Genworth only this past March. With operations in 24 countries and \$10.5 billion in 2005 revenues, the company's principal sources of revenue are life, long-term care and mortgage insurance.

Those involved in the deal suggested that the insurance giant is looking to beef up its retirement and money-management businesses to be on a par with the company's insurance business. Life insurance represents 43% of Genworth's 2005 revenues; retirement services and asset management only 10%. "For Genworth, it's definitely a market that they're targeting," says Frank Braden, an equity research analyst at Standard and Poor's. "One of their goals is to grow their retirement and investment services business, and this fits into that strategy."

Braden adds that the deal may indicate a larger trend. "Life insurance is so competitive that companies are seeking other ways to keep their return on equity high." One source of better returns are acquisitions of companies with high profit margins and long-term promise. AssetMark, with its phenomenal growth and loyal clientele, fits that bill.

Other observers, however, have wondered whether Genworth was more interested in AssetMark's adviser base as a platform for it to sell more of its annuities--both companies vehemently deny this. "As we set out to find a partner, we were looking for someone committed to building our business," says Cordes. "We actually turned down some buyers who had an agenda to push product through our adviser network." Genworth's Ahluwalia stresses that advisers, not Genworth or AssetMark, will control the new company's level of annuity sales. "It's more about what the adviser wants," he says. "Ron and I are both sensitive to the advisers with whom we've built relationships." O'Toole also stresses that AssetMark fully intends to continue on its current course. "This is not an integration and acquisition--this is about cost savings, growth and taking the company to the next level." More important, he says, "this is about making sure we don't disrupt the growth momentum."

ADVISER LOYALTY

Advisers, like Bob Shutte, a financial planner and president of Independent Investment Advisors in Bethlehem, Pa., aren't worried. "This deal doesn't smell like a fish," he says. "The AssetMark guys have such a passion for what they do. If they're still in charge of the decisions, they'll continue to be very business-building oriented." Like the rest of AssetMark's adviser clientele, Shutte is independent and believes the deal can only benefit his practice. "I'm taking a glass-half-full approach," he says. "If the deal's no good, I just move."

Shutte attributes some of AssetMark's success to the fact that the founders started off as financial planners and therefore are extra-sensitive to advisers' needs. "It's hard for a person to understand the problems we planners face every day," he explains. "AssetMark really does talk about how our businesses work and about ways we can make our businesses grow. Being planners themselves, they're one of us. And I like that."

Founded in 1996 by four longtime college friends and business partners, AssetMark's roots date back to a 1976 financial planning firm, Advisor Consulting Group. In 1996, the partners launched AssetMark and moved into the fee-based accounts space, claiming the first TAMP to deploy no-load mutual funds as its primary investment tool. Early on, AssetMark invested more than \$1 million in web-based technology to build its eWealthManager platform, which allows advisers to place a client's investable assets in managed accounts, including pooled, unified and separately managed accounts. After choosing a client's account structure, advisers can pick from among seven asset strategists from world-class institutions like Goldman Sachs, Standard & Poor's, UBS and Wilshire. The strategists design various asset allocation formulas for client accounts then advisers choose managers to execute the investment strategies. Finally, advisers can choose from a selection of custodians, including Schwab, Pershing and Fiserv.

TAMPs allow advisers to outsource investment management so they can devote more time to managing their practices and clients. "I spend a lot of time talking with my clients about their goals," says Gordon Voorhees, an independent financial planner in New York who uses AssetMark. "I don't have time to sift through tons of investment research and neither do my clients. I can outsource that task to experts who are tops in their field. And, my client gets million-dollar advice."

AssetMark has also teamed up with CEG Worldwide, a training and consulting firm, to offer educational seminars to advisers. "The seminars are impressive," says Shutte. "They really fill them out with business-building ideas." AssetMark also holds regular "Mastery Programs," or conferences, for its adviser clients. "I love AssetMark because they hold seminars all the time where they invite strategists to meet with us and show us ways to enhance our businesses," says Voorhees. "There's a lot of personal touch that I don't get with other firms."